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SUBJECT: INFLATION CONTINUES TO AFFLICT SYRIA

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¶1. (SBU) Summary: The IMF recently estimated average inflation in Syria at eight percent, close to the rate estimated by Post's 2006-7 price survey. This rate does not tell the whole story, however, as black market prices and subsidies mask inflation in Syria. Local Syrian economists take issue with the IMF estimate and assert that while inflationary pressures have abated since a high in 2006, average inflation remains well over ten percent. The local government-controlled Syrian press also continues to regularly report on the crisis associated with increasing prices.

GAUGING INFLATION

¶2. (SBU) Prices of goods in Syria's consumer market, imported and locally produced, began to increase in late 2005. In calendar year 2006, independent Syrian economists estimated that the inflation rate was well over ten percent, and closer to 20 percent when adding in the spike in real estate prices (reftel). In order to better gauge this inflationary trend, Post developed its own price survey tool which uses approximately 100 consumer items divided into nine categories. The categories are food, goods and services, utilities, housing, health care, travel and transportation, clothing, recreation, and education and communication. In the period between June 2006 and June 2007, Post collected prices on a quarterly basis from five neighborhoods representing different Syrian income groups. This was a first modest attempt to gauge inflation in Syria and Post will continue to refine its price survey tool moving forward.

PRICE SURVEY REVEALS CONTINUED INFLATION

¶3. (SBU) Post's recent price survey revealed that Syria continues to suffer from inflation, with the average inflation rate between June 2006 and June 2007 at 5.18 percent. This result is slightly lower than an IMF report that states average inflation in Syria during the first quarter of 2007 was eight percent. Post's survey probably reflects an artificially low inflation rate because it does not include black market prices and the SARG's subsidy system often masks inflation. Local Syrian economists assert that while inflationary pressures have abated since a high in 2006, average inflation remains well over ten percent and that the cumulative effect of inflation over the past two years is decreasing the purchasing power of average Syrians. The price survey revealed that the prices of necessary goods and services, including food items, have disproportionately increased, while some luxury goods, including automobiles, decreased.

SUBSIDIES MASK INFLATION

¶4. (SBU) The SARG's subsidy system masks inflation in Syria. The SARG subsidizes many basic utilities and commodities,

including heating oil, electricity, butane (cooking) gas, gasoline, water, wheat, sugar, rice, cotton, sugar beets and flour. Subsidies affect everyday life, as diesel and gasoline cost a fraction of international prices, irrigation water is paid for by the SARG, and electricity is artificially cheap. Despite the severe drought this spring, the price of bread -- arguably the most important food item for Syrians -- has not changed for the past decade. This may soon be changing, however, as SARG officials have recently made public statements that the government is developing a plan to gradually reduce the subsidy system.

SHARP INCREASE IN REAL ESTATE PRICES

15. (SBU) Real estate prices increased by four-fold over the past three years. The influx of relatively wealthy Iraqi refugees, population growth in Syria, the growing demands of the nascent Syrian financial sector, and interest from Gulf investors contributed to an increase in rental and housing prices. The large-scale housing and tourism projects with Gulf investment also led to a sharp increase in the price of land. In addition, the increase in the international prices of some building materials (steel and aluminum), and the shortage of some locally produced construction materials (cement) also drove up costs.

PRICES OF FOOD ON THE RISE

16. (SBU) Syria experienced a drought this spring that led to an increase in the price of staples and grains) traditionally stable commodities in Syria. In addition, prices of lamb, beef, dairy products and eggs increased due to the increase in international feed prices. Prices of chicken decreased dramatically between June 2006 and June 2007 because the threat of Avian Influenza had abated and poultry producers were back in production. Prices of fruits and vegetables rose over the same period because of an increase in domestic demand, legal exports, and smuggling operations.

PRICES OF IMPORTS INCREASED

17. (SBU) Prices of goods imported from Europe, such as powdered and infant milk and butter ghee, increased due to the high value of the Euro coupled with parallel increase in international prices (Note: Europe is Syria's main trading partner with a trade balance of USD 762 million in 2006. End Note.) Furniture prices also noticeably increased because the SARG imposed strict measures on the import of wood. While prices of some household goods have increased, due to the increase in the international prices of plastics, prices of some household electrical appliances have decreased slightly due to fierce competition in the local market and the exemption from customs duties on imports of these goods from Arab countries.

FERCE COMPETITION REDUCES CAR PRICES

18. (SBU) The SARG's liberalization of the import restrictions on automobiles, lowering of import duties, and increasing access to credit from the nascent private banking sector has encouraged many Syrians to purchase vehicles for the first time. These changes have also led to strong competition between car agents and a noticeable decrease in automobile prices. Public transportation and taxi fares are set by the SARG and have remained the same over the course of the year due to the subsidized prices of gasoline and diesel.

COMMODITY PRICE INCREASES OVERFLOW TO SERVICE SECTOR

19. (SBU) Members of the service sector, including doctors, medical laboratories, barbers, and taxi drivers have increased their charges and/or tips in response to increases in the price of commodities.

110. (SBU) Comment: Estimating inflation in Syria is difficult because of a lack of credible statistics, as well as a rampant black market and government subsidies on many

commodities. In general, however, while inflationary pressures may have abated since 2006, the average Syrian's expendable income is being hit hard by price increases that are not uniform but fall disproportionately in necessary goods and services. If the SARG does move forward with its announced plan to reduce subsidies -- although this remains open for debate due to the regime's preoccupation with regional political tensions -- inflation will likely skyrocket. Even if the SARG finds the resources to delay the avoidable reduction in the current subsidy level, local Syrian economists have commented to us that recent statements by SARG officials on potential changes to the subsidies system have already encouraged some price increases.

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